

SENATE BILL 2507
By Haun

AN ACT to provide for greater equity in funding
local education, and to amend Tennessee
Code Annotated, Title 49, Chapter 2; Title
49, Chapter 3 and Title 67, Chapter 6.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. This act shall be known and may be cited as the "Local Education Funding Equity Act of 1996".

SECTION 2. Tennessee Code Annotated, Title 67, Chapter 6, Part 7, the "1963 Local Option Revenue Act", is deleted in its entirety.

SECTION 3.

(a) Tennessee Code Annotated, Section 67-6-202(a), is amended by deleting the words, figure and symbol "six percent (6%)" and substituting instead the words, figures and symbol "eight and three-fourths percent (8.75 %)".

(b) Tennessee Code Annotated, Section 67-6-202, is amended by adding the following as a new subsection:

(c) The increase in the rate of the state sales tax from six percent (6%) to eight and three-fourths percent (8.75%) shall be applied only to the first one thousand six hundred dollars (\$1,600) on the sale of any single item taxed under the provisions of this section. All revenue generated from the increase in the state sales tax rate from six percent (6%) to eight and three-fourths percent (8.75%) shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 4.

(a) Tennessee Code Annotated, Section 67-6-203(a) is amended by deleting the words, figure and symbol "six percent (6%)" and substituting instead the words, figures and symbol "eight and three-fourths percent (8.75%)".

(b) Tennessee Code Annotated, Section 67-6-203, is amended by adding the following as a new subsection:

(d) The increase in the rate of the state sales and use tax from six percent (6%) to eight and three-fourths percent (8.75%) shall be applied only to the first one thousand six hundred dollars (\$1,600) of the cost of any single item taxed under the provisions of this section. All revenue generated from the increase in the state sales and use tax rate from six percent (6%) to eight and three-fourths percent (8.75%) shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 5.

(a) Tennessee Code Annotated, Section 67-6-204(a)(1), is amended by deleting the words, figure and symbol "six percent (6%)" and substituting instead the words, figures and symbol "eight and three-fourths percent (8.75%)".

(b) Tennessee Code Annotated, Section 67-6-204(a)(2), is amended by deleting the words, figure and symbol "six percent (6%)" and substituting instead the words, figures and symbol "eight and three-fourths percent (8.75%)".

(c) Tennessee Code Annotated, Section 67-6-204(a) is amended by adding the following as a new subdivision:

(3) The increase in the rate of the tax levied under this subsection from six percent (6%) to eight and three-fourths percent (8.75%) shall be applied only to the first one thousand six hundred dollars (\$1,600) of the amount derived from

the lease or rental of any single item of tangible personal property taxed under the provisions of this subsection.

(d) Tennessee Code Annotated, Section 67-6-204(c)(1), is amended by deleting the words, figure and symbol "six percent (6%)" and substituting instead the words, figures and symbol "eight and three-fourths percent (8.75%)", and by adding the following at the end of said subdivision:

The increase in the rate of the state use tax imposed under this subsection from six percent (6%) to eight and three-fourths percent (8.75%) shall be applied only to the first one thousand six hundred dollars (\$1,600) of the amount derived from the lease or rental of any single item taxed under the provisions of this section.

(e) Tennessee Code Annotated, Section 67-6-204(c)(3), is amended by deleting the subdivision in its entirety.

(f) Tennessee Code Annotated, Section 67-6-204, is amended by adding the following subsection at the end of said section:

(e) All revenue generated from the increase in the state sales and use tax rate from six percent (6%) to eight and three-fourths percent (8.75%), including, but not limited to, the taxes levied by this section, shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 6.

(a) Tennessee Code Annotated, Section 67-6-205(a), is amended by deleting the words, figure and symbol "six percent (6%)" and substituting instead the words, figures and symbol "eight and three-fourths percent (8.75%)".

(b) Tennessee Code Annotated, Section 67-6-205, is amended by adding the following as a new subsection:

(c) All revenue generated from the increase in the state sales and use tax rate from six percent (6%) to eight and three-fourths percent (8.75%), including, but not limited to, the taxes levied by this section, shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 7.

(a) Tennessee Code Annotated, Section 67-6-206(b)(1), is amended by deleting the words, figure and symbol "one percent (1%)" and substituting instead the words, figures and symbol "one and one-half percent (1.5%)"; and the subdivision is further amended by deleting the words, figures and symbol "one and one-half percent (1.5%)" and substituting instead the words, figures and symbol "four and one-fourth percent (4.25%)".

(b) Tennessee Code Annotated, Section 67-6-206(b), is amended by adding the following as a new subdivision:

(7) All revenue generated from the increase in the state sales and use tax rate from one percent (1%) to one and one-half percent (1.5%) levied by this subsection with respect to water sold to or used by manufacturers, and all revenue generated from the increase in the state sales and use tax rate from one and one-half percent (1.5 %) to four and one-fourth percent (4.25%) levied by this section with respect to gas, electricity, fuel oil, coal and other energy fuels sold to or used by manufacturers, shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 8. Tennessee Code Annotated, Section 67-6-217, is amended by deleting the words, figures and symbol "four and one-half percent (4.5%)" and substituting instead the

words, figures and symbol "seven and one-fourth percent (7.25%)", and the section is further amended by adding the following at the end of the section:

All revenue generated from the increase in the sales and use tax rate from four and one-half percent (4.5%) to seven and one-fourth percent (7.25%) respecting aviation fuel levied by this section shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 9. Tennessee Code Annotated, Section 67-6-218(a), is amended by deleting the words, figures and symbol "one and one-half percent (1.5%)" and substituting instead the words, figures and symbol "four and one-fourth percent (4.25%)".

(b) Tennessee Code Annotated, Section 67-6-218(b), is amended by deleting the words, figures and symbol "one and one-half percent (1.5%)" and substituting instead the words, figures and symbol "four and one-fourth percent (4.25%)".

(c) Tennessee Code Annotated, Section 67-6-218, is amended by adding the following as a new subsection:

(c) All revenue generated from the increase in the state sales and use tax rate from one and one-half percent (1.5 %) to four and one-fourth percent (4.25%) levied by this section shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 10.

(a) Tennessee Code Annotated, Section 67-6-219(a), is amended by deleting the words, figures and symbol "three and seventy-five hundredths percent (3.75%)" and substituting instead the words, figures and symbol "five and one-fourth percent (5.25%)".

(b) Tennessee Code Annotated, Section 67-6-219, is amended by adding the following as a new subsection:

(f) The increase in the rate of the state sales and use tax imposed under this section from three and seventy-five hundredths percent (3.75%) to five and one-fourth percent (5.25%) shall be applied only to the first one thousand six hundred dollars (\$1 ,600) on the sale or use of any single item taxed under the provisions of this section. All revenue generated from the increase in the state sales and use tax rate from three and seventy-five hundredths percent (3.75%) to five and one-fourth percent (5.25%) levied under this section shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 11.

(a) Tennessee Code Annotated, Section 67-6-221(a), is amended by deleting the words, figure and symbol "six percent (6%)" and substituting instead the words, figures and symbol "seven and one-half percent (7.5 %)".

(b) Tennessee Code Annotated, Section 67-6-221, is amended by adding the following as a new subsection:

All revenue generated from the increase in the state sales and use tax rate from six percent (6%) to seven and one-half percent (7.5%) levied by this section shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 12. Tennessee Code Annotated, Section 67-6-103, is amended by adding the following as a new subsection:

(e) Notwithstanding the provisions of subsections (a), (b) and (c), all revenues generated from the increase in the state sales and use tax rates levied under §§ 67-6-202 through 67-6-206, 67-6-217 through 67-6-219, and 67-6-221, after July 1, 1996, shall be deposited in the state general fund and earmarked for local education purposes in grades kindergarten (K) through twelve (12).

SECTION 13. Tennessee Code Annotated, Section 49-2-101, is amended by deleting the section in its entirety and substituting instead the following:

(a) Beginning July 1, 1996, county legislative bodies shall not levy taxes or appropriate local revenues to fund local education operations, grades kindergarten (K) through twelve (12), except that county legislative bodies may continue to levy property taxes and other authorized taxes and appropriate funds necessary to pay principal and interest and retire bonds and other debt obligations incurred before July 1, 1996, for educational purposes, and may also levy property taxes and other authorized taxes and allocate and appropriate local funds for land and buildings, including fixtures, but not unattached equipment, to be used for local education purposes. Beginning July 1, 1996, county legislative bodies may issue bonds and notes and incur debt for educational purposes, but the proceeds of such debt obligations shall be used only for land, buildings and fixtures, and not for unattached equipment or operational expenses.

(b) Beginning July 1, 1996, county legislative bodies shall not budget for local education operational purposes, grades kindergarten (K) through twelve (12). County legislative bodies may continue to budget and appropriate funds as necessary to meet all obligations regarding bonded indebtedness and other debt obligations for educational purposes.

SECTION 14. Tennessee Code Annotated, Section 49-2-103(a), is amended by deleting subdivision (5).

SECTION 15. Tennessee Code Annotated, Section 49-2-203(a)(11), is amended by deleting the subdivision in its entirety and substituting instead the following:

(11) (A) Require the superintendent (or director of schools) and chair of the local board to prepare a budget on forms furnished by the commissioner of education. The proposed budget shall be submitted to the local (county, municipal or special district) board of education for approval. No local funds shall be allocated to the local school

system, except for amounts to pay principal and interest or retire bonds or other debt obligations incurred for educational purposes, or for land or buildings, including fixtures, but not unattached equipment. Funds budgeted for debt service or for land or buildings, including fixtures, by a county or municipal board of education shall be subject to the approval of the county or municipal legislative body. Beginning July 1, 1996, county and municipal legislative bodies shall not have authority over the budgets of the local board of education, except with respect to approval of amounts budgeted by the board of education for debt service from local funds, and for funds budgeted for land, buildings, and fixtures.

(B) The local board of education shall approve the budget for the next fiscal year beginning July 1, 1996, by May 31, 1996, and shall approve the budget for each succeeding fiscal year by May 31 of each succeeding year. Any portion of the budget of the board of education which would allocate funds for debt service or for land, buildings and fixtures from local funds shall be submitted to the county or municipal legislative body by June 1 of each year, or such earlier time as the budgeting law of the particular county or municipality may require.

(C) Any amendment to the approved budget shall be approved by the local board of education (and the appropriate local legislative body regarding debt service or acquisition of land, buildings or fixtures from local revenue sources) in the same manner as the original budget.

SECTION 16. Tennessee Code Annotated, Section 49-2-206(b)(4), is amended by deleting the language "by the legislative body" and substituting instead "according to law".

SECTION 17. Tennessee Code Annotated, Section 49-2-301(f), is amended by deleting subdivision (23).

SECTION 18. Tennessee Code Annotated, Section 49-2-401, is amended by deleting the section in its entirety and substituting instead the following:

Beginning July 1, 1996, incorporated municipalities shall not allocate or appropriate local funds for local education operating purposes, grades kindergarten (K) through twelve (12). Every incorporated municipality which operates a public school system on July 1, 1996, may levy a property tax and utilize other sources of local revenue to pay principal and interest and retire any bonds or other debt obligations of the municipality incurred for local educational purposes, and may also allocate and appropriate local funds for land and buildings, including fixtures, but not unattached equipment, to be used for local education purposes.

SECTION 19. Tennessee Code Annotated, Section 49-2-404, is repealed.

SECTION 20. Tennessee Code Annotated, Title 49, Chapter 2, Part 5, is amended by adding the following as a new section:

Notwithstanding any other law to the contrary, beginning July 1, 1996, no special school district shall allocate any local funds to the special school district for operational purposes. Any property tax collected from property owners in the district for the use of the special school district may be used to pay interest and principal and retire any school bonds or other indebtedness of the special school district, and such property tax revenue may also be used for land, buildings and fixtures, but shall not be used for unattached equipment or operational purposes.

SECTION 21. Tennessee Code Annotated, Section 49-2-1258, is amended by adding the following at the end of the section:

Beginning July 1, 1996, a consolidated board of education shall not use bond proceeds to purchase equipment which is not attached to real property.

SECTION 22. Tennessee Code Annotated, Section 49-2-1260, is deleted.

SECTION 23. Tennessee Code Annotated, Section 49-2-1261, is amended by adding the following at the end of the section:

The consolidated school board, and not the local legislative bodies, shall have final approval of the budget, except with respect to debt service allocations and appropriations with respect to bonds and other debt obligations and capital expenditures for land, buildings and fixtures.

SECTION 24. Tennessee Code Annotated, Section 49-2-1265(a), is amended by adding the following at the end of the subsection:

The proceeds of the property tax levied pursuant to this section shall be used only to pay the principal and interest and to retire bonded indebtedness and other debt obligations of the consolidated school system, and for land, buildings and fixtures, and shall not be used for unattached equipment or for operational expenses of the consolidated school system.

SECTION 25. Tennessee Code Annotated, Section 49-3-301, is amended by inserting the words "as amended by the Local Education Funding Equity Act of 1996" immediately after the last word in the section.

SECTION 26.

(a) Tennessee Code Annotated, Section 49-3-302, is amended by deleting subsections (1), (2), (4), (9), (10), (13), and (15).

(b) Tennessee Code Annotated, Section 49-3-302, is further amended by adding the following as a new subsection:

() "Local education operations" or "operational purposes" means any and all educational purposes other than land, buildings and permanently attached fixtures.

SECTION 27. Tennessee Code Annotated, Section 49-3-304, is amended by deleting the section in its entirety and substituting instead the following:

The procedures for funding of education for any student in the public schools, grades kindergarten (K) through twelve (12), shall be according to the provisions of this

part, and to the extent that funds are appropriated for such purpose by the general assembly.

SECTION 28. Tennessee Code Annotated, Sections 49-3-306 through 49-3-312, 49-3-314, 49-3-315, 49-3-317 and 49-3-324, are deleted.

SECTION 29. Tennessee Code Annotated, Section 49-3-354, is amended by deleting subsection (c) and substituting instead the following:

(c) The basic education program allocation to each LEA shall not be less than the total appropriations to such LEA from all state and local governmental sources during the 1995-1996 fiscal year for operating purposes, adjusted for changes in FTEADM and I&S.

SECTION 30. Tennessee Code Annotated, Section 49-3-354, is further amended by deleting subsection (i) in its entirety.

SECTION 31. Tennessee Code Annotated, Section 49-3-356, is deleted.

SECTION 32. Tennessee Code Annotated, Section 49-3-359(b), is amended by deleting the subsection and substituting instead the following:

(b) The basic education program shall provide sufficient funding to each LEA so as to provide a duty-free lunch period for each teacher.

SECTION 33. Tennessee Code Annotated, Section 49-3-362, is amended by deleting the current language and substituting instead the following:

The basic education program shall provide sufficient funding to each LEA to provide compensation for one superintendent or director of schools for each LEA in existence on June 30, 1996. The amount of compensation provided under this section shall be determined by the state board and may vary according to the FTEADM of the LEA; provided, further, the compensation provided shall not reduce the compensation of any superintendent or director of schools below any amount such person is entitled under contract existing on June 30, 1996.

SECTION 34. Tennessee Code Annotated, Section 49-3-363, is amended by deleting the words and punctuation ", plus the local funds" from the first sentence of the section.

SECTION 35. Tennessee Code Annotated, Section 49-3-366, is amended by deleting the section in its entirety and substituting instead the following:

(a) The basic education program shall provide each LEA with sufficient funds for teachers' compensation, including salaries and employer-paid insurance premiums, in an amount not less than twenty-eight thousand ninety-four dollars (\$28,094) per instructional position determined according to the BEP formula.

(b) If state funds appropriated for teachers' compensation are insufficient to meet the LEA's entitlement under subsection (a), the commissioner shall apply a pro rata reduction to the amount for which each LEA is eligible.

SECTION 36. Tennessee Code Annotated, Title 49, Chapter 3, Part 3, is amended by adding the following as a new section:

Beginning July 1, 1996, the basic education program shall allocate funds for the purpose of providing incentive grants to induce counties and municipalities to consolidate county, municipal and special district school systems. The amount and criteria for the use of such consolidation incentive funds shall be determined by the state board of education.

SECTION 37. For the purpose of the state board of education developing regulations and procedures to implement this act, this act shall take effect upon becoming a law, but for all other purposes this act shall take effect on July 1, 1996, the public welfare requiring it.